

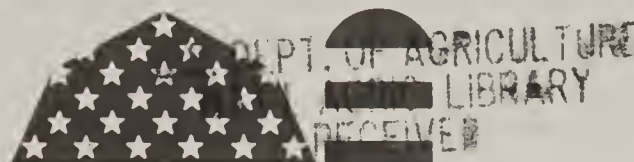
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FARMERS' NEWSLETTER

Cotton



MAY 5 '79

May 79/C-7

You may be one of several thousand cotton producers who recently completed a USDA questionnaire on your 1979 planting intentions. In any case, you'll be interested in the survey results.

They showed that as of early April, this year's cotton crop could be planted on 14.4 million acres. If you and other producers carry out these intentions, total acreage would be 1 million more than in 1978 and 300,000 more than indicated in the January planting intentions report.

With the April intentions in mind, let's consider the outlook for the coming cotton crop. You've probably firmed up your planting decisions by now, but it's not too early to plan a marketing strategy for your 1979 harvest.

Large Crop Possible

U.S. cotton production in 1979/80 could range from roughly 12.0 to 14.5 or more million bales, compared with 10.9 million in 1978. Not only is cotton acreage higher, but a repeat of last season's disastrous average yield of 421 pounds per acre isn't likely. Soil moisture conditions in the Texas High Plains, for example, are much improved over 1978.

Market Outlook Shows Continued Strong Foreign Demand

The real bright spot in the cotton demand picture is strong export sales. This season's exports are expected to

increase current season's bales, almost a million more than in 1977/78. For the first time since 1973/74 our share of world cotton trade is likely to top 30 percent. Two factors are primarily responsible for the brisk foreign demand:

- U.S. prices have been competitive relative to foreign cotton.

LARGER COTTON SUPPLIES MAY BE IN STORE FOR 1979

	1977/78	1978/79 esti- mated	1979/80 projected ¹	
			Alt. I	Alt. II
Million 480-lb. bales				
Beginning stocks	2.9	5.3	3.7	3.7
Production	14.4	10.9	14.6	12.2
Total supply	17.3	16.2	18.3	15.9
Mill use	6.5	6.3	6.5	7.0
Exports	5.5	6.3	5.0	5.5
Disappearance	12.0	12.6	11.5	12.5
Ending stocks ² . . .	5.3	3.7	6.9	3.5

Cents per pound

Farm price	52.3	³ 60.5	(⁴)	(⁴)
Loan rate ⁵	44.63	48.0	50.23	50.23

¹Alternative I reflects relatively favorable production conditions worldwide; Alternative II assumes relatively unfavorable production conditions worldwide. ²Does not equal previous season's supply less disappearance, primarily due to varying bale weights. ³Average to January 1, 1979. ⁴USDA is prohibited by law from projecting cotton prices. ⁵For SLM 1-1/16" cotton.

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OUR RISING SHARE OF WORLD TRADE



*480 Pound net weight bales.
^ΔEstimated.

- Production in foreign countries fell short of consumption by nearly 7 million bales this season.

Another good year is shaping up for U.S. cotton exports. Our overseas sales should receive a boost from the relatively low carryover anticipated in foreign countries this summer, and possibly from increased foreign consumption next season.

With indications of only a small expansion in foreign cotton acreage this year, the key to our 1979/80 cotton exports probably will be average yields in major producing countries. If foreign yields are relatively poor, our exports could exceed 6.5 million bales. However, favorable yields abroad could mean U.S. shipments of less than 5.5 million bales.

U.S. Mill Use Still Sluggish

In contrast to exports, U.S. cotton mill demand remains slow. Domestic

mills may use about 6.3 million bales this season, down from the 6.5 million of 1977/78. There are several reasons for this weakness:

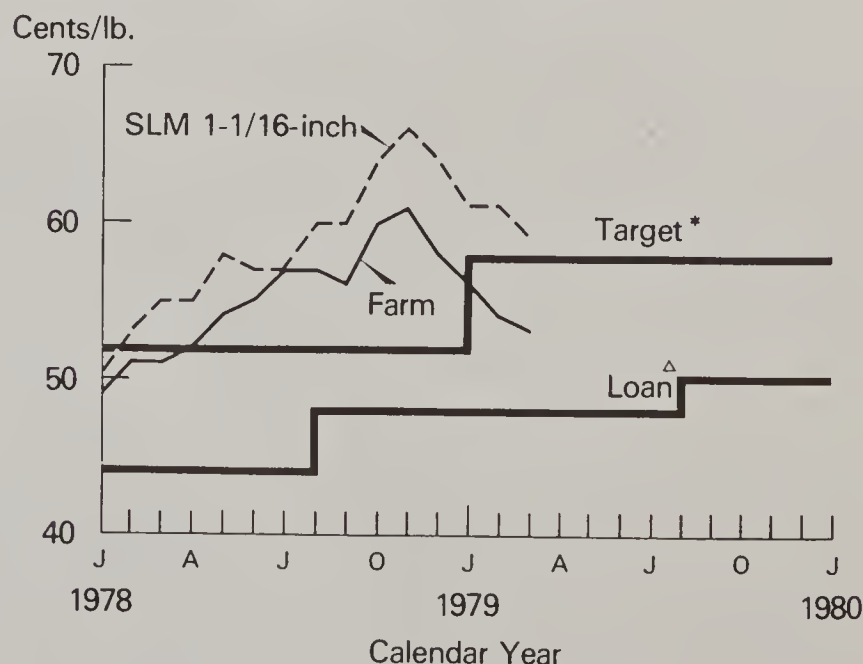
- Increased competition from manmade fibers.
- Record large U.S. imports of foreign-made cotton textiles in 1978.
- Uncertainties surrounding proposed cotton dust standards and the potential expense of compliance.

The last two factors are likely to hurt U.S. mill use for some time. But with rising oil prices and related costs, manmade fiber producers have been forced to raise prices.

At the same time, cotton prices have declined during recent months. Thus, with respect to price competition from manmades, cotton's position is improving.

So, mill use during 1979/80 probably will change little from this season. The overall strength of the U.S. economy will be the determining factor. An economic slowdown could limit mill use to around 5.5 million bales. On the

FARM PRICES FALL BELOW TARGET



* Target price is for calendar year.
^Δ SLM 1-1/16 inch at average location; for year beginning August 1.

other hand, stronger economic growth than currently expected could lift mill demand to 6.5 million bales.

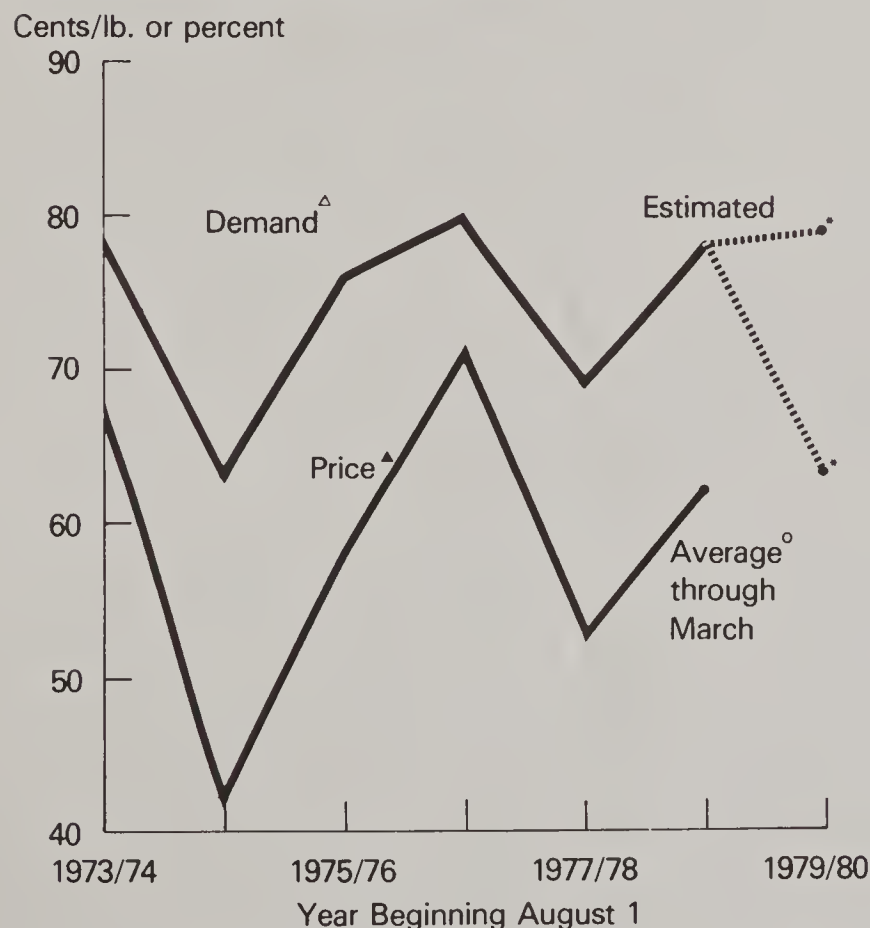
Stocks Likely Higher Next Season

U.S. cotton stocks this August 1--the start of the 1979/80 season--will be around 3.7 million bales, a sharp drop from the relatively high level of 5.3 million bales on hand on August 1, 1978.

Current indications point to a rebuilding of stocks during 1979/80. However, much will depend on weather conditions during the planting and growing seasons.

Favorable weather could boost production and increase stocks sharply, exerting downward pressure on prices. Unfavorable weather, on the other hand, could result in slightly smaller stocks and perhaps improved prices from the current season.

COTTON DEMAND MAY RISE



^Δ Mill use plus exports divided by total supply.

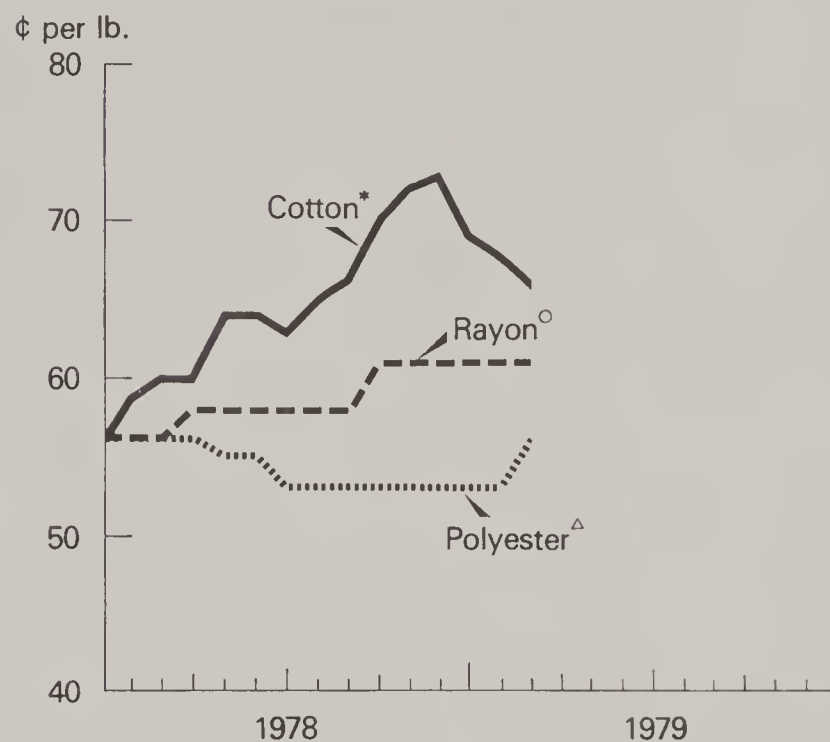
[▲] Average for SLM 1-1/16 inch cotton.

[○] Not a projection for 1978/79 crop year--USDA is prohibited from publishing cotton price projections.

* Likely range based on April planting intentions and alternative worldwide cotton growing conditions in 1979.

COTTON PRICES

GETTING MORE COMPETITIVE



* SLM 1-1/16" at group B mill points. ^Δ Type 54, 1.5 denier staple. [○] 1.5 and 3.0 denier, regular rayon staple.

Weather so far has not been highly cooperative. By the last week in April, cotton planting was only about 14 percent complete--behind last year's rate--and wet fields were slowing progress in the Delta States.

Target Price Exceeds Farm Price So Far This Year

USDA has announced a preliminary cotton target price of 57.7 cents a pound for 1979, up around 6 cents from last year. The target price is subject to change when final production cost estimates for 1978 become available later this month.

If the national average farm price for calendar 1979 falls below the target, program participants will receive deficiency payments--probably in February 1980.

The deficiency payment is the difference between the average U.S. price and the target price, regardless of the price you get for your crop. For example, if the national average price turned out to be 55 cents a pound in calendar 1979 and the target

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price was 58 cents, you would get 3 cents a pound whether you sold your cotton for 55 cents or 60 cents.

During the first quarter of 1979, monthly farm prices averaged below the target price, ranging from 53 to 56 cents a pound.

Barring bad weather and a smaller-than-expected crop, the chances of cotton producers receiving deficiency payments are probably greater than at any time since the target price program was established in 1974.

Consider Forward Contracting

The price you get for your 1979 crop will depend heavily on weather and economic developments during the rest of the year. You should stay alert to forward contracting opportunities. Early indications are that it would be wise to consider booking a portion of your 1979 crop if you are offered a profitable price.

At the end of March, about 10 percent of the 1979 crop had been sold ahead, about the same rate as last year, when producers eventually forward contracted around a fourth of their cotton.

For the very latest crop, livestock, and economic information, call the toll free FARMERS' NEWSLINE. It's available 24 hours a day 7 days a week. Just dial

800-424-7964

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Mark your calendar for the following features scheduled through June that will be of special interest to cotton producers:

May 17	Exports
May 18, 19, 20	Cotton & Wool
May 23	Crops & Weather
May 29	Agricultural Outlook
May 31	Farmers' Prices
June 4	Crops & Weather
June 6	Agricultural Outlook
June 14	Crops & Weather
June 19	Crops & Weather
June 27	Crops & Weather
June 28	1979 Planted Acreage

(Features are subject to change. In some areas, it may be necessary to dial 1-800-424-7964.)
